Michigan Deptartment of Treasury 496 (2-04)

	ting F		cedures	Rep	ort					
	ernment Type			Other	Local Governme	ent Name OF TWINING		Cou	nty RENAC	
Audit Date										
accordan	ce with the Statement	ne S	tatements of the	Govern	mental Accou	government and rendered unting Standards Board (ent in Michigan by the Mich	GASB) and th	e Unifori	n Repo	
1. We h	nave comp	lied	with the Bulletin fe	or the Au	udits of Local U	Units of Government in Mic	chigan as revise	ed.		
2. We a	are certifie	d pul	blic accountants r	egistere	d to practice in	n Michigan.				
	er affirm th			oonses h	nave been disc	closed in the financial state	ements, includir	ng the not	es, or in	the report of
You must	check the	арр	licable box for ea	ch item t	oelow.					
Yes	√ No	1.	Certain compone	ent units	/funds/agencie	es of the local unit are excl	luded from the	financial	stateme	nts.
Yes	✓ No	2.	There are accur 275 of 1980).	nulated	deficits in one	or more of this unit's un	reserved fund	balances	retained	l earnings (P.A.
√ Yes	☐ No	3.	There are instar amended).	nces of	non-complian	ce with the Uniform Acco	ounting and Bu	dgeting /	Act (P.A	. 2 of 1968, as
Yes	Yes Vo 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.								ance Act or its	
Yes	√ No	5.				ents which do not comply of 1982, as amended [MC		requirem	ents. (F	P.A. 20 of 1943,
Yes	√ No	6.	The local unit ha	s been o	delinquent in d	listributing tax revenues th	at were collecte	ed for and	ther tax	king unit.
Yes	√ No	7.	pension benefits	(norma	l costs) in the	itutional requirement (Arti current year. If the plan requirement, no contribution	is more than 1	00% fund	ded and	the overfunding
Yes	✓ No	8.	The local unit u (MCL 129.241).	ses cre	dit cards and	has not adopted an app	licable policy a	as require	ed by P.	A. 266 of 1995
Yes	√ No	9.	The local unit ha	s not ad	lopted an inve	stment policy as required t	oy P.A. 196 of	1997 (MC	L 129.9	5).
We have	enclose	d the	following:				Enclosed	To Forwa	Be arded	Not Required
The lette	er of comm	ents	and recommend	ations.			✓			
Reports on individual federal financial assistance programs (program audits).						✓				
Single Audit Reports (ASLGU).							✓			
BERT			Firm Name) OMPANY CPA	S		7-2.		Io.	1	
Street Address City 60 HARROW LANE SAGINAW							State MI	ZIP. 486	638	
Accountar	nt Signature	le	-h a-k	Ser	hrain	ne		Date //-	-30	-05.

VILLAGE OF TWINING

Arenac County, Michigan

FINANCIAL STATEMENTS

February 28, 2005

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INDEPENDENT AUDITORS' REPORT

Members of the Village Council Village of Twining Twining, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Twining, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Twining, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Twining, Michigan, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2005, on

our consideration of the Village of Twining's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Twining's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a

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required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

As described in Note 14, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements for State and Local Governments, and related statements, as of March 1, 2004.

May 6, 2005





STATEMENT OF NET ASSETS

February 28, 2005

	Governmental <u>Activities</u>	Business-type Activities	Total
Assets:			
Cash and cash equivalents	\$ 69,755	\$ 1,085	\$ 70,840
Receivables	23,408	98,181	121,589
Internal balances	100,866	(100,866)	-
Restricted cash and cash equivalents	-	6,666	6,666
Capital assets:			
Nondepreciable capital assets	8,336	_	8,336
Depreciable capital assets, net	126,171	736,038	862,209
Total assets	328,536	741,104	1,069,640
Liabilities:			
Accounts payable and accrued expenses	7,788	10,869	18,657
Long-term liabilities:			
Due within one year	13,724	26,373	40,097
Due in more than one year	16,796	337,000	353,796
Total liabilities	38,308	374,242	412,550
Net assets:			
Invested in capital assets, net of related debt	103,987	372,665	476,652
Restricted for:			
Debt service	-	6,666	6,666
Streets	35,145	-	35,145
CDBG Housing Rehabilitation	9,910	_	9,910
Liquor Law Enforcement	98	_	98
Unrestricted	141,088	(12,469)	128,619
Total net assets	\$ 290,228	\$ 366,862	\$ 657,090

STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

	Program Revenues						•			
	Expenses		Charges for nses Services		Operating Grants and Contributions		Capital Grants and Contributions			(Expense) Revenue
Functions/Programs										
Governmental activities:										
General government	\$	22,561	\$	3,510	\$	-	\$	-	\$	(19,051)
Public safety		6,198		-		908		8,413		3,123
Public works		25,756		6,889		23,882		-		5,015
Community and economic development		10,977		-		13,123		-		2,146
Interest on long-term debt		3,022		-				-		(3,022)
Total governmental activities		68,514		10,399		37,913		8,413		(11,789)
n i i i i i i i i i i i i i i i i i i i										
Business-type activities: Sewer		65,172		32,305				-		(32,867)
Total business-type activities		65,172		32,305						(32,867)
Total primary government	\$	133,686	\$	42,704	\$	37,913	\$	8,413	\$	(44,656)

continued

	Governmental Activities	Business- type Activities	Total
Changes in net assets:			
Net (Expense) Revenue	\$ (11,789)	\$ (32,867)	\$ (44,656)
General revenues: Taxes:			
Property taxes, levied for general purpose Grants and contributions not restricted to	32,236	-	32,236
specific programs	21,292	-	21,292
Unrestricted investment earnings	154	25	179
Transfers	(9,600)	9,600	
Total general revenues and transfers	44,082	9,625	53,707
Change in net assets	32,293	(23,242)	9,051
Net assets, beginning of year	257,935	390,104	648,039
Net assets, end of year	\$ 290,228	\$ 366,862	\$ 657,090

BALANCE SHEET

February 28, 2005

										onmajor ernmental		
		Major Governmental Funds							Fund			
	General Fund		Major Street Fund		Local Street Fund		CDBG Housing Fund		Liquor Law Enforcement Fund		Total Government Funds	
Assets:												
Cash and cash equivalents	\$	30,405	\$	25,908	\$	2,980	\$	9,910	\$	552	\$	69,755
Taxes receivable		4,083		-		-		-		-		4,083
Accounts receivable		3,440		-		-		-		-		3,440
Due from other governmental												
units		6,501		7,376		2,008		-		-		15,885
Due from other funds		98,788	_	7,000	_	17,256	_	-			_	123,044
Total assets	\$	143,217	\$	40,284	\$	22,244	\$	9,910	\$	552	\$	216,207
Liabilities and Fund												
Balances:												
Liabilities:												
Accounts payable												
and accrued expenses	\$	1,942	\$	585	\$	3,655	\$	-	\$	245	\$	6,427
Due to other funds				17,661		4,308				209		22,178
Total liabilities		1,942		18,246		7,963	_			454	-	28,605
Fund balances:												
Unreserved:												
General fund		141,275		-		-		-		-		141,275
Special revenue funds				22,038		14,281	_	9,910		98		46,327
Total fund balances		141,275		22,038		14,281	_	9,910		98		187,602
Total liabilities and												
fund balances	\$	143,217	\$	40,284	\$	22,244	\$	9,910	\$	552	\$	216,207

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 28, 2005

Total fund balances for governmental funds		\$ 187,602
Total net assets reported for governmental activities in the statement of of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	217,340	
Less accumulated depreciation	(82,833)	134,507
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(1,361)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Installment purchase contracts payable		 (30,520)
Net assets of governmental activities		\$ 290,228

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2005

		Major Cayor	Nonmajor Governmental				
		Major Gover Major	Fund Liquor Law	Total			
	General Fund	Street Fund	Local Street Fund	CDBG Housing Fund	=	Governmental Funds	
Revenues:							
Property taxes	\$ 32,236	\$ -	\$ -	\$ -	\$ -	\$ 32,236	
Licenses and permits	295	-	-	-	-	295	
Federal grants	-	-	-	13,123	-	13,123	
State grants	21,292	18,777	5,105	-	908	46,082	
Contributions from other units	8,413	-	-	-	-	8,413	
Charges for services	6,889	-	-	-	-	6,889	
Interest and rents	3,171	61	5	-	3	3,240	
Other revenue	129					129	
Total revenues	72,425	18,838	5,110	13,123	911	110,407	
Expenditures:							
Current:							
General government	13,770	-	-	-	-	13,770	
Public safety	-	-	-	-	1,166	1,166	
Public works	12,598	6,737	2,221	-	-	21,556	
Community and economic							
development	-	-	-	10,977	-	10,977	
Other	8,110	-	-	-	-	8,110	
Capital outlay	881	-	-	-	-	881	
Debt service:							
Principal	15,908	-	-	-	-	15,908	
Interest and fees	2,791					2,791	
Total expenditures	54,058	6,737	2,221	10,977	1,166	75,159	
Excess (deficiency) of							
revenues over							
expenditures	18,367	12,101	2,889	2,146	(255)	35,248	
Other financing sources (uses):							
Transfers in	-	-	4,694	-	-	4,694	
Transfers out	(9,600)	(4,694)				(14,294)	
Total other financing sources (uses)	(9,600)	(4,694)	4,694			(9,600)	
Net change in fund balances	8,767	7,407	7,583	2,146	(255)	25,648	
Fund balances, beginning of year	132,508	14,631	6,698	7,764	353	161,954	
Fund balances, end of year	\$ 141,275	\$ 22,038	\$ 14,281	\$ 9,910	\$ 98	\$ 187,602	

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental funds		\$ 25,648
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	_	
Less depreciation expense	(9,032)	(9,032)
Repayments of principal on installment purchase contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets.		15,908
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest on installment purchase contracts payable		 (231)
Change in net assets of governmental activities		\$ 32,293

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

February 28, 2005

	Business-type Activities Sewer
	Fund
Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,085
Accounts receivable	9,461
Special assessments receivable	88,720
Total current assets	99,266
Noncurrent assets:	
Restricted cash and cash equivalents	6,666
Capital assets:	726.020
Depreciable capital assets, net	736,038
Total noncurrent assets	742,704
Total assets	841,970
Liabilities:	
Current liabilities:	
Accounts payable	2,670
Accrued expenses	8,199
Due to other funds	100,866
Current portion of long-term debt	26,373
Total current liabilities	138,108
Noncurrent liabilities:	
Long-term debt	337,000
Total noncurrent liabilities	337,000
Total liabilities	475,108
Net assets	
Invested in capital assets, net of related debt	372,665
Restricted for:	
Debt service	6,666
Unrestricted	(12,469)
Total net assets	\$ 366,862

PROPRIETARY FUNDS – ENTERPRISE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended February 28, 2005

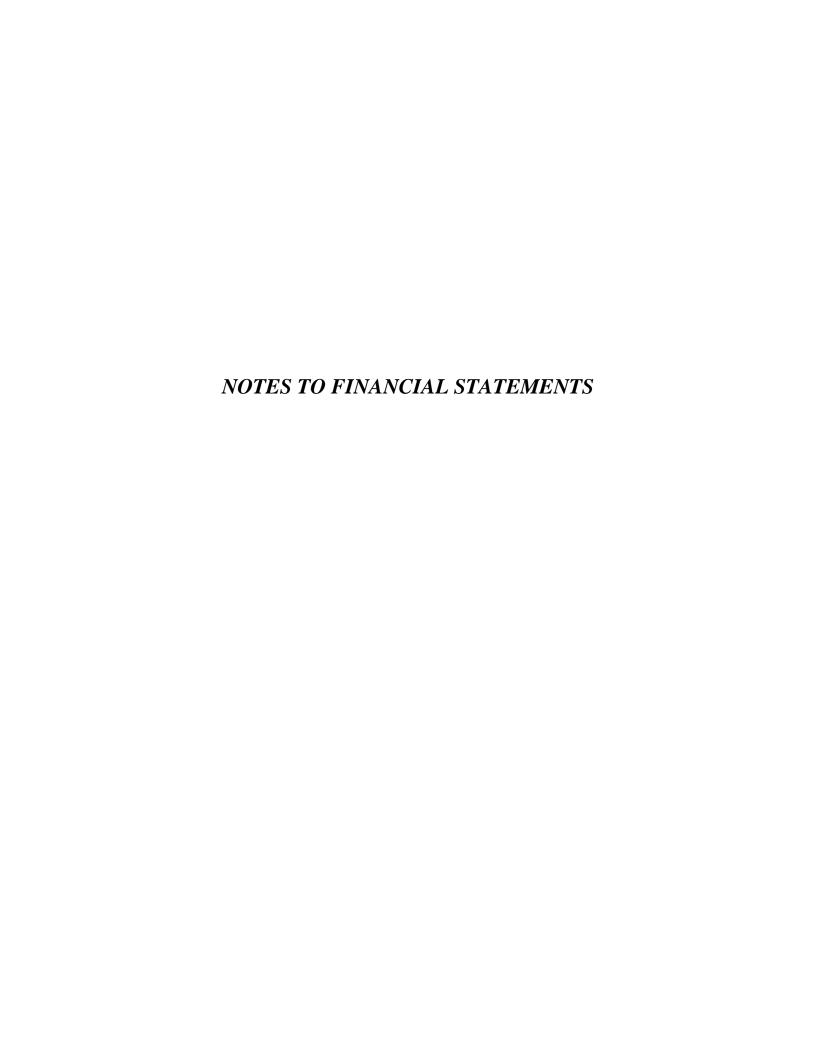
	Business-type Activities
	Sewer Fund
Operating revenues: Charges for services	\$ 25,285
Total operating revenues	25,285
Operating expenses:	
Personnel	6,598
Fringe benefits	505
Supplies	1,027
Contracted services	5,567
Mileage	30
Dues and membership fees	175
Insurance	1,921
Utilities	2,105
Repair and maintenance	4,881
Other services and supplies Depreciation	13 21,030
Total operating expenses	43,852
Operating income (loss)	(18,567)
Non-operating revenues (expenses):	
Interest income	25
Interest on special assessments	7,020
Interest expense	(21,320)
Total non-operating revenues (expenses)	(14,275)
Net income (loss) before operating transfers	(32,842)
Operating transfers:	
Transfer from other funds	9,600
Total operating transfers	9,600
Net income (loss)	(23,242)
Net assets, beginning of year	390,104
Net assets, end of year	\$ 366,862

PROPRIETARY FUNDS – ENTERPRISE FUND

STATEMENT OF CASH FLOWS

Year Ended February 28, 2005

	Business-type Activities
	Sewer Fund
Cash flows from operating activities: Cash received from customers Cash payments to employees Cash payments to suppliers for goods and services	\$ 23,857 (6,598) (6,363)
Net cash provided by operating activities	10,896
Cash flows from non-capital financing activities: Operating transfers in Net cash provided by non-capital	9,600
financing activities	9,600
Cash flows from capital and related financing activities: Special assessment collections Interest on special assessments Principal payments Interest paid Net cash used by capital and related	7,324 7,020 (15,000) (21,320)
financing activities	(21,976)
Cash flows from investing activities: Interest received	25
Net cash provided by investing activities	25
Net increase (decrease) in cash and cash equivalents	(1,455)
Cash and cash equivalents, beginning of year	9,206
Cash and cash equivalents, end of year	<u>\$ 7,751</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss) Adjustments:	\$ (18,567)
Depreciation Change in assets and liabilities: Accounts receivable Accounts payable Accrued expenses Due to other governmental units Due to other funds	21,030 (1,428) 2,543 (310) (6,683) 14,311
Net cash provided by operating activities	\$ 10,896



NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Village of Twining is located in Arenac County and provides services to approximately 169 residents in many areas including public safety, highways and streets, general administrative services, and community enrichment and development. The Village is a home rule village incorporated under *Public Act 278 of 1909*. The Village is governed by a five member council elected by the citizens and the president of the Village, all of whom reside in the community. The accounting policies of the Village of Twining conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) has no component units and accordingly, the Village has not consolidated any entities into its financial statements.

Joint Operations:

The Village participates in the "Twining Mason Turner Fire Authority," a joint venture with the Townships of Mason and Turner. The Authority was established on June 19, 2003 in accordance with state law 1988 P.A. 57 for the purpose of forming a joint fire board for uniform and orderly control of fire protection, fire department functions (including vehicle purchase and insurance coverage), and financing within the territorial limits of the Village of Twining and the Townships of Mason and Turner.

Basis of Presentation – Fund Accounting:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

February 28, 2005

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The Village reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to accounted for in another fund.

Major Street Fund – The Major Street Fund is used to account for the maintenance and construction of the Village's major street system.

Local Street Fund – The Local Street Fund is used to account for the maintenance and construction of the Village's local street system.

CDBG Housing Fund – The CDBG Housing Fund is used to account for grant revenue received for housing rehabilitation projects in the Village.

February 28, 2005

The Village reports the following major enterprise fund:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Properties are assessed as of December 31. The related property taxes are billed on the following July 1, are due on September 14, and become a lien on December 1 with the final collection date of February 14 before they are added to the county tax rolls.

The 2004 taxable valuation of the Village totaled \$2,248,895, on which ad valorem taxes levied consisted of 14.1685 mills for the Village's operating purposes.

The delinquent real property taxes of the Village are purchased by Arenac County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

Sewer Special Assessments Receivable – A special assessment was assessed to each applicable parcel in the Village for the construction of a sewer system within the Village limits. The assessment is used to pay the sewer debt. The special assessment receivable at February 28, 2005 was \$84,496. There is also an interest charge that accrues at a rate of 7% on the unpaid balance of the remaining assessment. Collections for special assessments and interest on the special assessments have been reported as a reduction to the sewer assessment receivable and interest earned on special assessment.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	25-50 years
Vehicles	5-25 years
Equipment	5-15 years
Distribution system	50 years

February 28, 2005

Compensated Absences – The Village does not allow the carryover of unused sick or vacation days.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Accounting Change:

GASB Statement No. 34 - Effective March 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.* Changes to the financial statements as a result of GASB No. 34 are as follows:

- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities has been provided.
- Capital assets in the governmental activities column of the statement of net assets include net assets totaling \$134,507 that have not been previously reported by the Village. In addition, the governmental activities column includes long-term obligations (installment purchase contracts) totaling \$30,520 previously reported in the General Long-term Debt Account Group.

February 28, 2005

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. The Village Clerk submits to the Village Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to March 1, the budget is legally enacted by adoption of the Village Council.
- 4. Any revision that alters the total expenditures of any fund must be approved by the Village.
- 5. Formal budgetary integration is employed as a management control device during the year for all funds.
- 6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the Village Council is included in the required supplemental information.
- 7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds:

During the year, the Village did not incur any expenditures that were in excess of the amounts budgeted.

UNDER ASSESSMENT OF LEVIES FOR RETIREMENT OF SEWER DEBT:

Special assessments collections plus an annual \$9,600 transfer from the General Fund are to be used to make the annual sewer debt payment. Currently these revenues are insufficient to fully cover the debt payments. As a result, other operating revenues are being used to pay part of the annual debt service payment. Sources for future funding of the shortfall are unknown.

NONCOMPLIANCE WITH THE UNIFORM CHART OF ACCOUNTS:

The Village has failed to establish and maintain the Uniform Chart of Accounts in a formal accounting system in accordance with *Public Act 2 of 1968*. The classification of accounts for Michigan local units of government has been developed by the Michigan Department of Treasury, Local Audit and Finance Division under the authority of *Public Act 2 of 1968*, as amended, and *Public Act 71 of 1919*, as amended.

NONCOMPLIANCE WITH THE INVESTMENT POLICY:

The Village has failed to adopt an investment policy in accordance with *Public Act 20 of 1943*, as amended (MCL 129.95).

February 28, 2005

NOTE 3: DEPOSITS AND INVESTMENTS

The Village's deposits and investments at February 28, 2005 are included in the statement of net assets under the following categories:

	ernmental <u>ctivities</u>	ness-type ctivities	Go	Total vernment
Cash and cash equivalents	\$ 69,755	\$ 1,085	\$	70,840
Restricted Cash and Equivalents	 	 6,666		6,666
	\$ 69,755	\$ 7,751	\$	77,506
Deposits:				
TD1 1 '- C -1 X7'11 C 11				

The deposits for the Village are as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 64,283
Cash held by Arenac County	 9,910
Total	\$ 74,193

The deposits of the Village were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$64,283 of which \$64,283 is covered by federal depository insurance and the remainder was uninsured and uncollaterized.

Investments:

State statutes authorize the Village to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repuchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a Village.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, or securities held by the Village or its agent in the Village's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At year end, the Village had no investments.

February 28, 2005

NOTE 4: RESTRICTED ASSETS AND DEBT RESERVE

As of February 28, 2005, the Village had \$ 6,666 in a separate account for the purpose of paying the sewer debt. The balance sheet shows the cash as restricted and the retained earnings as restricted.

NOTE 5: CAPITAL ASSETS

Capital assets activity of the Village's governmental and business-type activities was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 8,336	\$ -	\$ -	\$ 8,336
Depreciable capital assets:		<u>·</u>	·	
Buildings and improvements	55,700	-	-	55,700
Equipment	37,715	_	_	37,715
Vehicles	115,589	-	_	115,589
	209,004			209,004
Total capital assets	217,340	-		217,340
Accumulated depreciation	(73,801)	(9,032)		(82,833)
Net governmental capital assets	\$ 143,539	\$ (9,032)	\$ -	\$ 134,507
	Beginning Balance	Additions	Retirements	Ending Balance
Business-type activities:				
Sewer capital assets:				
Capital assets being depreciated				
Distribution system	\$ 1,051,488	\$ -	\$ -	\$ 1,051,488
Accumulated depreciation:				
Distribution system	294,420	21,030		315,450
Net sewer capital assets	\$ 1,345,908	\$ 21,030	\$ -	\$ 1,366,938

February 28, 2005

Depreciation expense was charged to programs of the government as follows:

Governmental activities:	
Public safety	\$ 5,032
Public works	 4,000
Total governmental activities	\$ 9,032
Business-type activities:	
Sewer	\$ 21,030
Total business-type activities	\$ 21,030

NOTE 6: LONG-TERM DEBT

The Village issues contracts, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation debts are direct obligations and pledge the full faith and credit of the Village. County contractual agreements and installment purchase agreements are general obligations of the government. The Village has two installment purchase contracts for the purchase of fire trucks which are backed by the Village but are being paid for by the Fire Authority.

Long-term obligation activity can be summarized as follows:

Types of Indebtedness	<u>Maturity</u>	Interest Rates	Annual Principal <u>Installments</u>	Original Issue Amount	Outstanding at Year-End
Governmental Activities					
Installment Contracts Payable:					
2003 Issue - Tractor	12/20/03-6/20/06	7.90%	\$3,606-4,391	\$ 23,930	\$ 12,671
2002 Issue - Lawn Mower	5/22/03-5/22/05	7.90%	899-1,071	2,942	1,071
2001 Issue - Fire Truck	12/21/02-6/21/05	5.45%	1,060-90	23,484	3,219
1999 Issue - Fire Truck	12/17/99-6/17/14	4.86%	437-1,695	19,000	13,559
Business-type Activities					
Contract Payable - Arenac County:					
1989 Issue - Sanitary Drain	5/1/90-5/1/19	6.00%	15,000-31,000	532,000	353,000
Loan Payable - Arenac County:					
1992 Issue - Sanitary Drain	10/1/92-10/1/98	6.00%	Past Due	30,000	10,373

February 28, 2005

The following is a summary of long-term liabilities transactions for the year ended February 28, 2005:

	eginning Balance	A	dditions	Re	tirements	Ending Balance	e Within ne Year
Governmental activities:							
Installment Purchase Contracts:							
2003 Issue - Tractor	\$ 20,324	\$	-	\$	(7,653)	\$ 12,671	\$ 8,280
2002 Issue - Lawn Mower	2,043		-		(972)	1,071	1,071
2001 Issue - Fire Truck	9,403		-		(6,184)	3,219	3,219
1999 Issue - Fire Truck	14,658		-		(1,099)	13,559	1,154
Total governmental activities							
- long-term liabilities	\$ 46,428	\$	-	\$	(15,908)	\$ 30,520	\$ 13,724
Business-type activities:							
Contract Payable - Arenac County							
1989 Issue - Sanitary Drain	\$ 368,000	\$	-	\$	(15,000)	\$ 353,000	\$ 16,000
Loan Payable - Arenac County							
1998 Issue	 10,373		-		-	10,373	 10,373
Total business-type activities							
- long-term liabilities	\$ 378,373	\$	-	\$	(15,000)	\$ 363,373	\$ 26,373

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

Year Ended		Governmental Activities				Buis	iisness-Type Activities					
February 28,	P	rincipal		Interest	_	Total	I	Principal	_	Interest	_	Total
2006	\$	13,724	\$	1,658	\$	15,382	\$	26,373	\$	22,039	\$	48,412
2007		5,601		766		6,367		17,000		19,770		36,770
2008		1,270		530		1,800		18,000		18,720		36,720
2009		1,333		467		1,800		20,000		17,580		37,580
2010		1,398		402		1,800		20,000		16,380		36,380
2011-2015		7,194		906		8,100		122,000		61,380		183,380
2016-2020			_		_	<u> </u>	_	140,000		20,070	_	160,070
	\$	30,520	\$	4,729	\$	35,249	\$	363,373	\$	175,939	\$	539,312

February 28, 2005

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business-type activities in the aggregate are as follows:

	Governmental Activities		Business-type Activities	
Receivables:				
Taxes	\$	4,083	\$	-
Special assessments:				
Due within one year		-		4,224
Due in more than one year		-		84,496
Accounts		3,440		9,461
Intergovernmental		15,885		
Total receivables	\$	23,408	\$	98,181
Accounts payable and accrued expenses:				
Accounts payable	\$	6,427	\$	2,670
Interest		1,361		8,199
Total accounts payable and accrued expenses	\$	7,788	\$	10,869

NOTE 8: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 28, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major Street Fund	\$ 1,405
	Local Street Fund	4,308
	Liquor Law Enforcement	209
	Sewer	92,866
		98,788
Major Street Fund	Sewer Fund	7,000
Local Street Fund	Major Street Fund	16,256
	Sewer Fund	1,000
		17,256
		\$ 123,044

February 28, 2005

Management does not normally anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The Village however has a serious problem with funding its sewer system debt and has transferred money from which ever fund happens to have sufficient funds at the time the debt payments are due.

Interfund transfers reported in the fund statements were as follows:

Funds Transferred From	Funds Transferred To		mount
Major Street Fund	Local Street Fund	\$	4,694
General Fund	Sewer Fund		9,600
	Total	<u>\$</u>	14,294

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Village has purchased commercial insurance to cover general liability, non-owned/hired automobile liability, errors and omissions, property damage, and inland marine. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The Village does not provide post-employment benefits.

NOTE 11: GOING CONCERN

Untimely billings for services rendered, insufficient sewer assessments, and an inability to meet debt requirements has created a going concern issue. Management plans to seek additional grants from the State of Michigan to assist in the payment of the debt.

February 28, 2005

NOTE 12: ACT 51 REVENUES

As of February 28, 2005 the Village has five (5) months of *State Act 51* revenues receivable from the State Department of Transportation. The State is holding up distribution of the monies until the filing of the annual *Act 51* report is completed by the Village.

The Village will receive \$7,376 of *Act 51* monies for the Major Street Fund and \$2,008 for the Local Street Fund once the funds are released by the State. These amounts have been recognized as receivables as of February 28, 2005.

NOTE 13: PRIOR PERIOD ADJUSTMENTS

Accounting Change:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* (Statement). The Village is required to implement the new requirements for the year ended February 28, 2005. The more significant of the changes to the financial statements as a result of the Statement are as follows:

For the first time, the financial statements will include:

- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental and enterprise funds.

As a result of implementing the Statement, the following restatements were made to beginning fund balance and net asset accounts:

Fund Financial Statements:

The beginning net assets of the enterprise fund was derived by aggregating the previously reported retained earnings and contributed capital.

Government-wide Financial Statements:

Beginning net assets for governmental activities was determined as follows:

Fund balances of governmental funds as of 2/29/04	\$	161,954
Add: Governmental capital assets as of 02/29/04		217,340
Deduct: Accumulated depreciation as of 2/29/04 on above governmental capital assets		(73,801)
Deduct: Installment purchase contracts payable as of 2/29/04		(46,428)
Deduct: Accrued interest payable on bonds as of 2/29/04	_	(1,130)
Governmental net assets, restated, as of 2/29/04	\$	257,935



BUDGETARY COMPARISON SCHEDULE

		Budgeted Amounts			Actual Over (Under)		
)riginal		Final	Actual		d Budget
Revenues:							
Property taxes	\$	-	\$	_	\$ 32,236	\$	32,236
Licenses and permits		-		_	295		295
State grants		-		_	21,292		21,292
Contributions from other units		-		-	8,413		8,413
Charges for services		-		-	6,889		6,889
Interest and rents		-		-	3,171		3,171
Other revenue			-		 129		129
Total revenues					 72,425		72,425
Expenditures:							
Current							
General government		7,950		13,550	13,770		220
Public works		9,700		12,750	12,598		(152)
Other		4,950		8,000	8,110		110
Capital outlay		-		1,000	881		(119)
Debt service							
Principal		1,140		15,908	15,908		-
Interest and fees				3,005	 2,791		(214)
Total expenditures		23,740		54,213	 54,058		(155)
Excess (deficiency) of revenues over expenditures		(23,740)		(54,213)	 18,367		72,580
Other financing sources (uses): Transfers out	_	(9,600)		(9,600)	(9,600)		
Total other financing sources (uses)		(9,600)		(9,600)	 (9,600)		
Net change in fund balance		(33,340)		(63,813)	8,767		72,580
Fund balance, beginning of year		132,508		132,508	132,508		
Fund balance, end of year	\$	99,168	\$	68,695	\$ 141,275	\$	72,580

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts						Actual Over (Under)	
	0	riginal		Final	Actual		Final Budget	
Revenues:								
State grants	\$	-	\$	-	\$	18,777	\$	18,777
Interest and rents			_			61		61
Total revenues						18,838		18,838
Expenditures:								
Current		0 125		17 606		6 727		(10.960)
Public works		8,135		17,606		6,737		(10,869)
Total expenditures		8,135		17,606		6,737		(10,869)
Excess (deficiency) of								
revenues over expenditures		(8,135)		(17,606)	-	12,101		29,707
Other financing sources (uses):								
Transfers out				(4,694)		(4,694)		-
Total other financing sources (uses)				(4,694)		(4,694)		
Net change in fund balance		(8,135)		(22,300)		7,407		29,707
Fund balance, beginning of year		22,038	-	22,038		14,631		(7,407)
Fund balance, end of year	\$	13,903	\$	(262)	\$	22,038	\$	22,300

SPECIAL REVENUE FUND – LOCAL STREET FUND

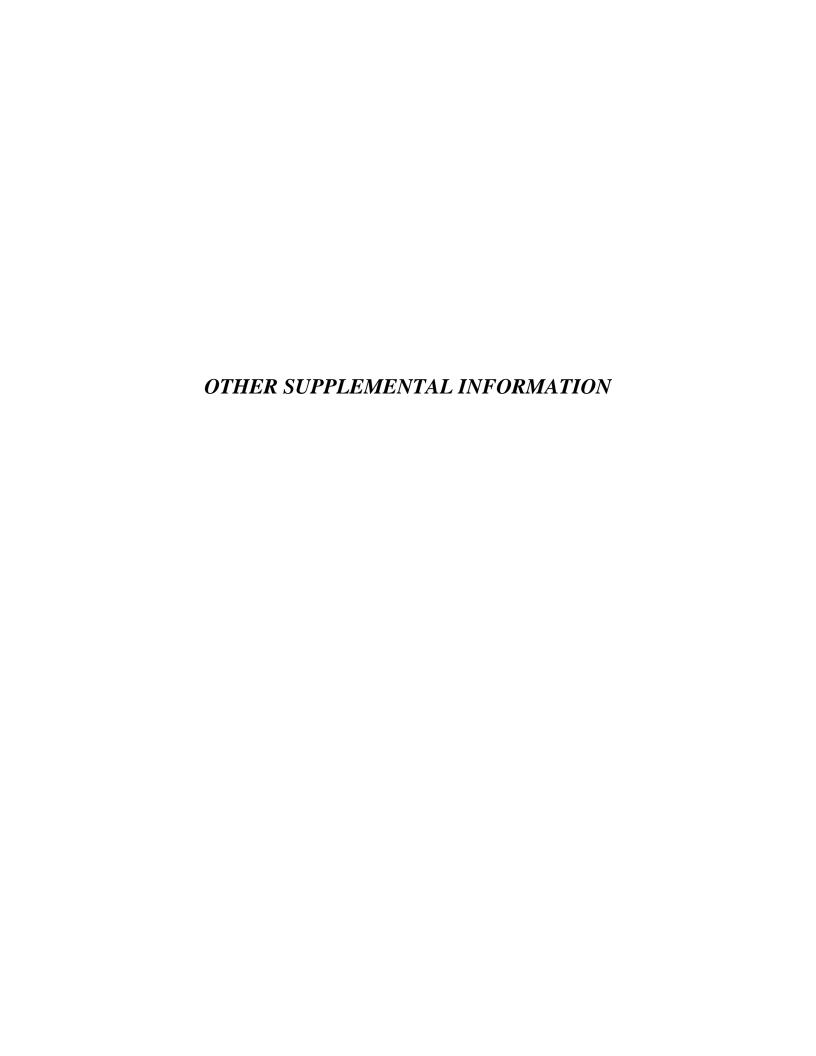
BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts						Actual Over (Under)	
	0	riginal]	Final	Actual		Final Budget	
Revenues:								
State grants	\$	-	\$	-	\$	5,105	\$	5,105
Interest and rents						5		5
Total revenues						5,110		5,110
Expenditures: Current								
Public works		5,270		6,750		2,221		(4,529)
Total expenditures		5,270		6,750		2,221		(4,529)
Excess (deficiency) of revenues over expenditures		(5,270)		(6,750)		2,889		9,639
Other financing sources (uses): Transfers in						4,694		4,694
Total other financing sources (uses)						4,694		4,694
Net change in fund balance		(5,270)		(6,750)		7,583		14,333
Fund balance, beginning of year		6,698		6,698		6,698		-
Fund balance, end of year	\$	1,428	\$	(52)	\$	14,281	\$	14,333

SPECIAL REVENUE FUND – CDBG HOUSING FUND

BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts							ctual (Under)
		Original Final		Actual		Final Budget		
Revenues:	<u> </u>							
Federal grants	\$		\$	11,000	\$	13,123	\$	2,123
Total revenues				11,000		13,123		2,123
Expenditures:								
Current								
Community and economic development	-			11,000		10,977		(23)
Total expenditures				11,000		10,977		(23)
Excess (deficiency) of								
revenues over expenditures		-		-		2,146		2,146
Fund balance, beginning of year		7,764		7,764		7,764		
Fund balance, end of year	\$	7,764	\$	7,764	\$	9,910	\$	2,146



DETAILED SCHEDULE OF REVENUES

Current Taxes:	
Property taxes	\$ 31,917
Administration fees	319
	32,236
Licenses and permits:	
CATV franchise fees	295
	295
State Grants:	
State revenue sharing - sales tax	21,292
	21,292
Contribution from other units:	
Contribution from Fire Authority - debt payments	8,413
	8,413
Charges for services:	
Refuse collection fees	6,889
	6,889
	
Interest and rents:	
Interest	85
Rents	3,086
	3,171
Other Revenue:	
Reimbursements	129
	129
Total revenues	\$ 72,425

DETAILED SCHEDULE OF EXPENDITURES

Expenditures: General Government: Council:	
Personnel	\$ 1,160
Supplies	310
Contracted services	105
Dues and memberships	305
Other	25
	1,905
Clerk:	
Personnel	1,500
	1,500
Audit:	
Contracted services	6,595
Conducted Services	6,595
Treasurer:	
Personnel	1,100
Supplies	1,100
Supplies	
	1,182
Elections:	
Personnel	46
Contracted services	237
Printing and publications	267
	550
Building and Grounds:	
Personnel	692
Supplies	96
Utilities	266
Repairs and maintenance	984
	2,038
Total general government	13,770

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Expenditures, continued:	
Public Works:	
Department of Public Works: Personnel	150
Supplies	68
Contracted services	28
Repairs and maintenance	1,987
1	2,233
Drains - Public Benefit:	
Contracted services	1,725
	1,725
Street Lighting:	
Utilities Utilities	5,410
	5,410
Refuse Collection/Disposal:	5,410
Contracted services	3,230
Conducted Services	3,230
	3,230
Total public works	12,598
Other:	
Insurance and bonds	7,798
Employer's share of FICA	312
	8,110
Capital Outlay:	
General government	681
Public works	200
	881
Debt Service:	
Principal	15,908
Interest and fees	2,791
	18,699
Total expenditures	54,058
Other Financing Uses:	
Transfers to other funds	9,600
	9,600
Total expenditures and other financing uses	\$ 63,658

SCHEDULE OF INDEBTEDNESS

February 28, 2005

Installment Purchase Contract – Tractor:

On June 20, 2003 the Village of Twining obtained an installment purchase contract with John Deere Credit. The contract is for the purchase of a JD 4710 tractor with attachments in the amount of \$23,930.25. The contract is to be financed for a term of 3 years at a fixed rate of interest of 7.90% with semi-annual payments of \$4,567.30.

Fiscal Year Ended	P	rin	icipal Due	Inte	erest Due	Annual ayment
2006 2007	9	\$	8280 4,391	\$	855 176	\$ 9,135 4,567
Total	9	\$	12,671	\$	1,031	\$ 13,702

Installment Purchase Contract – Lawn mower:

On May 22, 2002, the Village of Twining entered into as installment purchase contract. The contract is for the purchase of a lawn mower in the amount of \$4,082 with a down payment of \$1,140 and the balance to be financed for a term of 3 years at a fixed rate of interest of 7.90% with annual payments of \$1,139.75.

Fiscal Year Ended	Pri	ncipal Due	Inter	est Due	annual ayment
2006	\$	1,071	\$	69	\$ 1,140
Total	\$	1,071	\$	69	\$ 1,140

SCHEDULE OF INDEBTEDNESS

February 28, 2005

Installment Purchase Contract – Fire Truck:

On May 8, 1995, the Village obtained a loan from the State Bank of Standish in the amount of \$50,000 for the remaining portion owed on a fire truck after a down payment of \$16,300. Eleven semi-annual payments with an interest rate of 6.35% per annum began October 10, 1995. On June 21, 2001, this loan was refinanced through Citizens Bank for \$23,484. The new loan calls for eight payments of \$3,307 with an interest rate of 5.45% per annum beginning on December 21, 2001. As of February 29, 2004, \$9,403 of the principal remained outstanding as follows:

Fiscal Year Ended	rincipal mount	erest iount	Annual Total	
2006	\$ 3,219	\$ 88	\$ 3,307	
Total	\$ 3,219	\$ 88	\$ 3,307	

This debt has been assumed by the Fire Authority. During the fiscal year the Authority paid \$6,184 of principal and \$429 of interest on this debt.

Installment Purchase Contract – Fire Truck:

On June 17, 1999, the Village of Twining obtained a loan from Citizens Bank. The loan is for the purchase of a 1975 AMC Tanker Truck in the amount of \$32,000 with a down payment of \$13,000 and the balance to be financed for a term not exceeding 15 years at a fixed rate of interest of 4.86% with semi-annual payments of \$899.93.

Fiscal Year Ended	P	rincipal Due	 terest Due	Annual Payment	
2006	\$	1,154	\$ 646	\$ 1,800	
2007		1,210	590	1,800	
2008		1,270	530	1,800	
2009		1,333	467	1,800	
2010		1,398	402	1,800	
2011		1,467	333	1,800	
2012		1,539	261	1,800	
2013		1,615	185	1,800	
2014		1,695	105	1,800	
2015		878	22	900	
Total	\$	14,658	\$ 4,242	\$ 18,900	

This debt has been assumed by the Fire Authority. During the fiscal year the Authority paid \$1,099 of principal and \$701 of interest on this debt.

SCHEDULE OF INDEBTEDNESS

February 28, 2005

Contract Payable – Sewer Fund:

On October 9, 1989, the Twining Sanitary Drain Drainage District, County of Arenac, issued \$532,000 in bonds for the purpose of constructing the Twining Sanitary Drain. The Village of Twining has agreed to repay the bonds from the collection of special assessments and 6 mills of general fund tax revenues. The bonds bear interest at the rate of 6% per annum payable semi-annually beginning May 1, 1990. The following is a schedule of outstanding principal and interest on the bonds:

Fiscal Year Ended	Interest l May 1		Interest Due November 1		Principal Due November 1		Annual Payment
2006	\$ 10,	380	\$	10,380	\$ 16,000	\$	36,760
2007		885		9,885	17,000	·	36,770
2008	· · · · · · · · · · · · · · · · · · ·	360		9,360	18,000		36,720
2009	8,	790		8,790	20,000		37,580
2010	8,	190		8,190	20,000		36,380
2011	7,	560		7,560	22,000		37,120
2012	6,3	885		6,885	23,000		36,770
2013	6,	180		6,180	24,000		36,360
2014	5,4	430		5,430	26,000		36,860
2015	4,0	635		4,635	27,000		36,270
2016	3,	795		3,795	29,000		36,590
2017	2,3	895		2,895	31,000		36,790
2018	1,9	980		1,980	30,000		33,960
2019	1,0	065		1,065	31,000		33,130
2020		300		300	19,000		19,600
Total	\$ 87,	330	\$ 8	37,330	\$ 353,000	\$	527,660

Loan Payable – Sewer Fund:

On May 18, 1992, the Twining Sanitary Drain Drainage District obtained a loan from the County of Arenac in the amount of \$30,000. The Village of Twining has agreed to repay the loan in seven annual payments beginning October 1, 1992 with interest at the rate of 6% per annum. As of February 28, 2005, \$10,373 of the loan principal remained outstanding (past due) as follows:

1997	Principal Amount		Interest Amount		Annual Total	
	\$	4,873	\$	-	\$	4,876
1998		5,500		-		5,500
1999		-		593		593
2000		-		686		686
Total	\$	10,373	\$	1,279	\$	11,652



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Village Council Village of Twining Twining, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Twining, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated May 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting:

In planning and performing our audit, we considered the Village of Twining's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Village of Twining's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Company Certified Public Accountants

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May 6, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended February 28, 2005

I. SUMMARY OF AUDIT RESULTS

- 1. Reportable conditions were disclosed by the audit of the general purpose financial statements. These are material weaknesses.
- 2. Instances of noncompliance material to the general purpose financial statements are disclosed.
- 3. The Federal award program tested for compliance was the U.S. Department of Agriculture Water and Waste Disposal System for Rural Communities, CFDA No. 10.418.

II. FINDINGS - FINANCIAL STATEMENT AUDIT/INTERNAL CONTROL

1. Inadequate bookkeeping records/procedures:

Condition: The Village does not use or maintain a General Ledger. The

Village only uses a Cash Receipts Journal and a Cash Disbursements

Journal.

These journals do not include all the transactions because of errors of

omission. The clerk's accounting records/journals were not reconciled to

the treasurer's transactions/balances of cash.

The State's Uniform Chart of Accounts is not used.

Criteria: Good internal control requires that these basic bookkeeping records/

procedures be done on a timely and consistent basis. State law requires

the use of these basic records and the Chart of Accounts.

Effect: Accurate financial reports cannot be produced in the proper format.

Recommendation: The clerk's journals need to be more accurately maintained. A General

Ledger and the Uniform Chart of Accounts should be used.

Accurate bank account balances must be maintained by both the clerk

and treasurer. The two balances must be agreed at the end of each

month.

2. Budget:

Condition: The budget for the year was approved in March 2004 – after the fiscal

year started.

Criteria: State law requires that the annual budget be adopted before the year

starts. The law requires that actual expenditures cannot exceed the

budget.

Effect: Expenditures in excess of budgeted amounts could result in deficit fund

balance situations and related financial difficulties.

Recommendation: The Village should adopt an accurate budget before the year starts and

maintain and amend the budget during the year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

For the Year Ended February 28, 2005

III. FINDINGS - FINANCIAL STATEMENT AUDIT/COMPLIANCE

1. USDA Federal Loan Agreement Requirements:

Condition: The Village did not submit financial information to the USDA as

required.

Criteria: Accounting to the USDA loan agreement, the Village is required to

submit financial information, on an annual basis, to the USDA including a budget, the sewer rate schedule, a list of officials, and a copy of the

audited financial statements.

Effect: The violation of Federal requirements could result in various

enforcement actions.

Recommendation: The annual reporting requirements must be completed/submitted to the

USDA.

IV. FOLLOW-UP TO PRIOR YEAR FINDINGS AND RECOMMENDATIONS:

The prior auditor comments were concerning:

A) Lack of general ledger/inadequate bookkeeping procedures.

- B) Problems with budget.
- C) Unreconciled special assessment receivable records.
- D) Payroll reconciliation to 941's.
- E) Incorrect equipment rental rates.
- F) Time card approval.

We found that there were improvement in the special assessment records, payroll reporting and use of equipment rental rates of the above areas. The Village is continuing to have difficulties paying for its sewer system. It appears additional financing must be found as soon as possible.